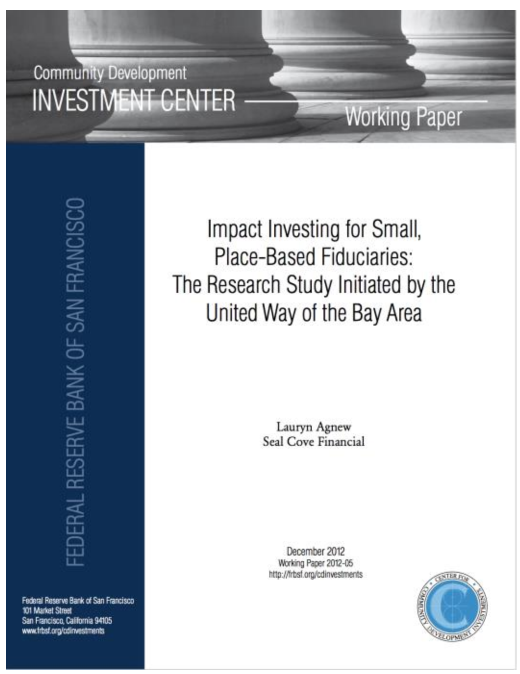
March 2021

Bay Area
Impact Investing Initiative

10 Years of Higher Returns and Lower Risks: 15.9% vs. 13.8%

Ten years ago, following an investment process, the then Impact Investment Sub-Committee of the United Way of the Bay Area explored if and how we could build a portfolio for the endowment fund that would align with a mission to reduce poverty in the Bay Area. As a proxy for the idea that a 'good job is a strong path out of poverty,' we concluded that a portfolio focused on the companies/employers headquartered in the Bay Area could have an impact through engagement on jobs and employment conditions, as well as resource management in the region. A number of portfolios were tested to assess the relationship between tracking error and the degree of concentration of Bay Area stocks, and the best balance was determined to be that of a portfolio with a 75% weighting in Bay Area stocks (versus 19% for the S&P) that would be expected to produce a tracking error of less than 2%. Using an optimization model we overlaid a set of ESG characteristics that are related to "good jobs". The details of the 7 ESG screens, the optimization program, the due diligence, and other choices the committee made to develop the strategy are included in this research paper, published by the Federal Reserve Bank of San Francisco. The standard deviation of the Bay Area equity strategy was 13.9% vs. the Russell 3000's at 14.1%, shown with other portfolio characteristics in the table below.

You can download the original paper here or view it on the Federal Reserve's website to read about the investment process and research.


Community Development
INVESTMENT CENTER
Working Paper

FEDERAL RESERVE BANK OF SAN FRANCISCO

Impact Investing for Small, Place-Based Fiduciaries: The Research Study Initiated by the United Way of the Bay Area

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December 2012
Working Paper 2012-05
http://frbsf.org/cdinvestments

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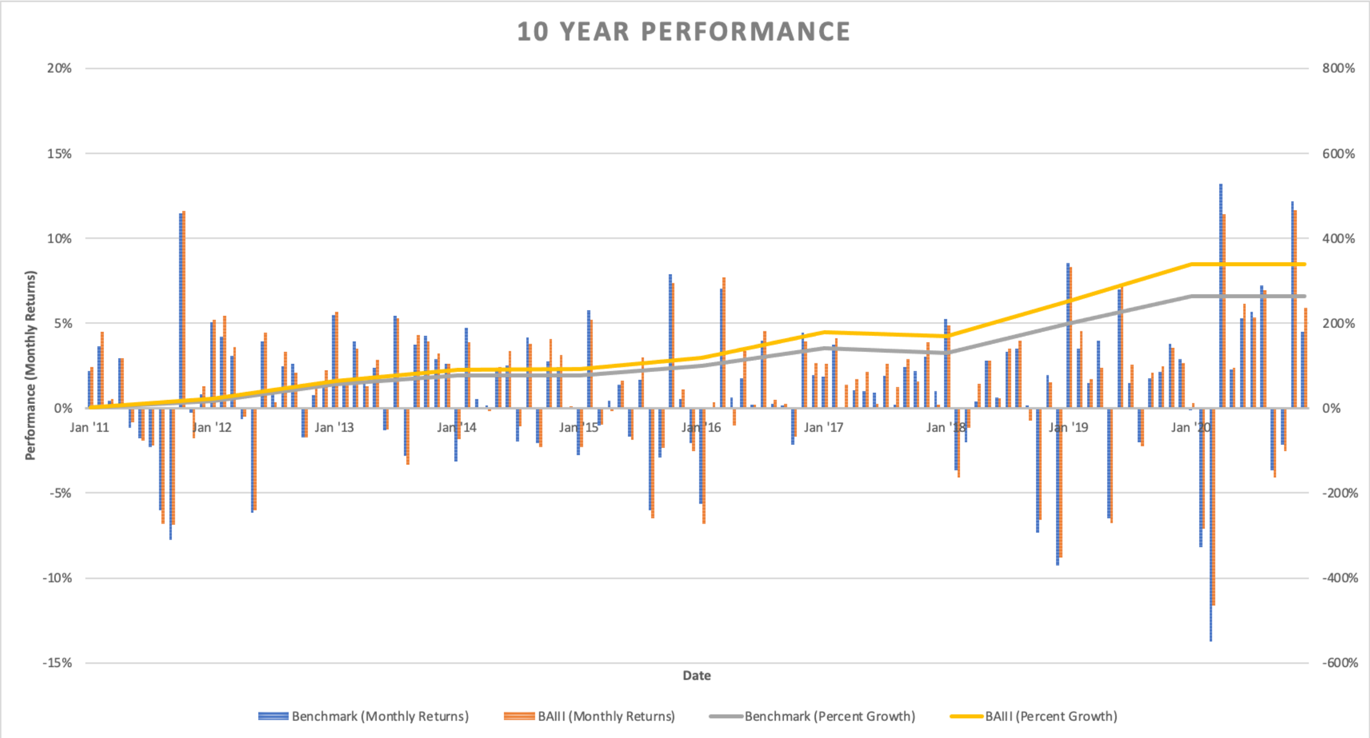
The long-term performance of the BAIII equity strategy has been surprisingly strong. The outperformance versus the benchmark, Russell 3000, is strong and consistent over a variety of market conditions. The results also show that the portfolio has a **lower standard deviation of returns**, **lower volatility** versus the market, and **higher ESG scores**. Because of the optimization process, where industry and sector exposure are designed to track the market, the attribution for the outperformance is entirely stock selection, based on the criteria determined 10 years ago when we developed the strategy and screens. The initial portfolio had a 30% higher ESG score than the market, an improvement from 46 to 60.

Year	Russell 3000	BAIII Equity
CY 2011	1.01%	1.56%
CY 2012	16.37%	20.95%
CY 2013	33.46%	33.38%
CY 2014	12.54%	16.29%
CY 2015	0.47%	0.82%
CY 2016	12.64%	13.99%
CY 2017	21.07%	27.43%
CY 2018	-5.20%	-3.67%
CY 2019	31.00%	31.45%
CY 2020	20.90%	24.30%
Inception Cumulative	263.17%	339.21%
Inception Annualized	13.77%	15.95%



Portfolio Characteristics

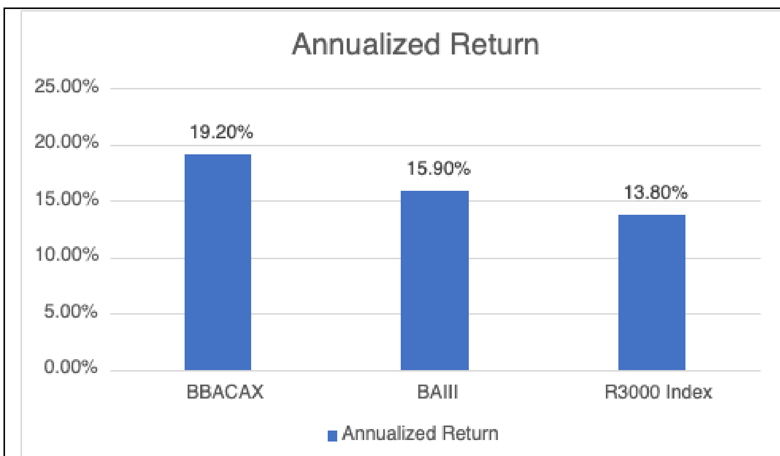
The portfolio characteristics are not significantly different from its universe (BBACAX) or its benchmark, Russell 3000. In 2011, the Bloomberg Bay Area Index (BBACAX) was a cap-weighted index of companies headquartered in the Bay Area. It served as a base for developing the underlying universe from which the BAIII strategy would build the portfolio.

10 years:12/31/2020	BBACAX*	Russell 3000	BAIII Equity Strategy
Annualized Return	19.2%	13.8%	15.9%
Ann. Std. Deviation	17.6%	14.1%%	13.9%
Beta	1.13	1.00	0.97
Sharpe Ratio	1.06	1.1	0.95
R-Squared	81.55	100.00	97.06
Info Ratio	0.70		0.90
Tracking Error			2.94%

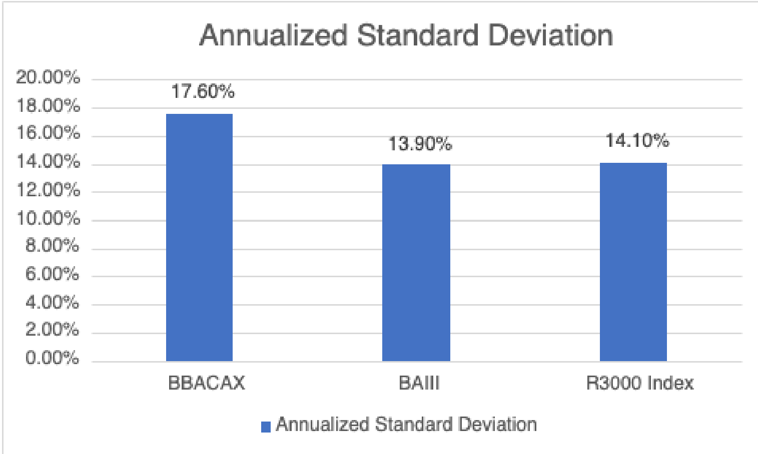
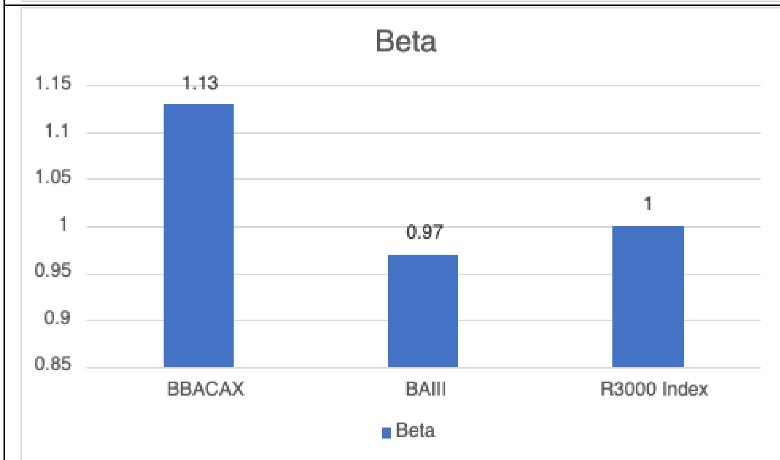
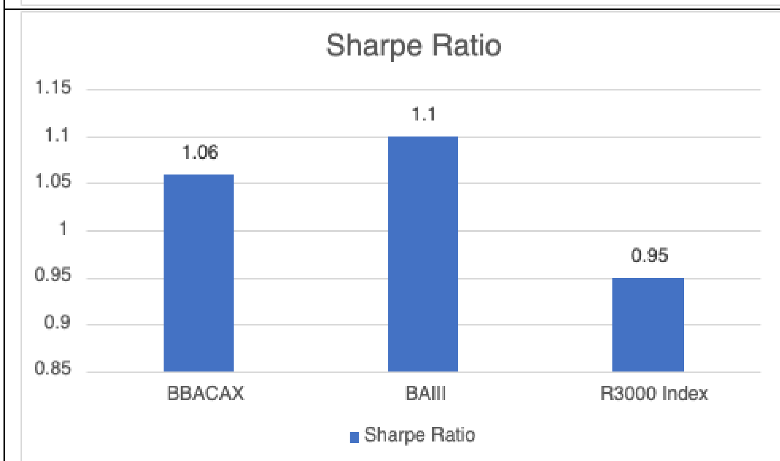
	Russell 3000	BAIII Equity Strategy
Number of Holdings	3058	162
Average Market Cap ($ billion)	386.2	286.1
Universe	R 3000	BBACAX + 15 + 25% other

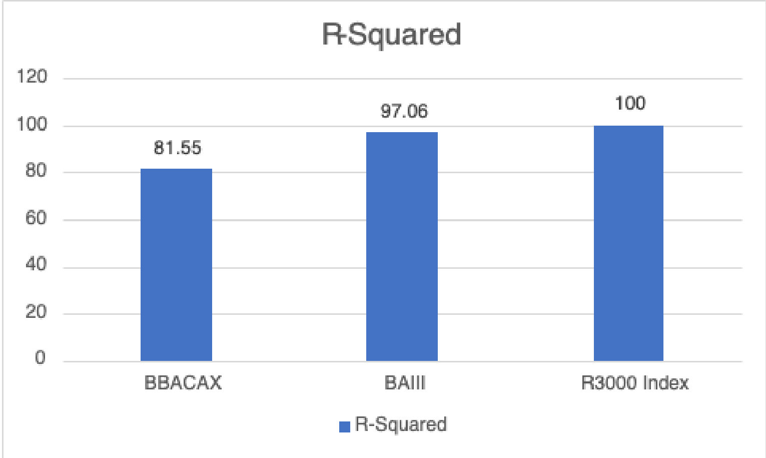
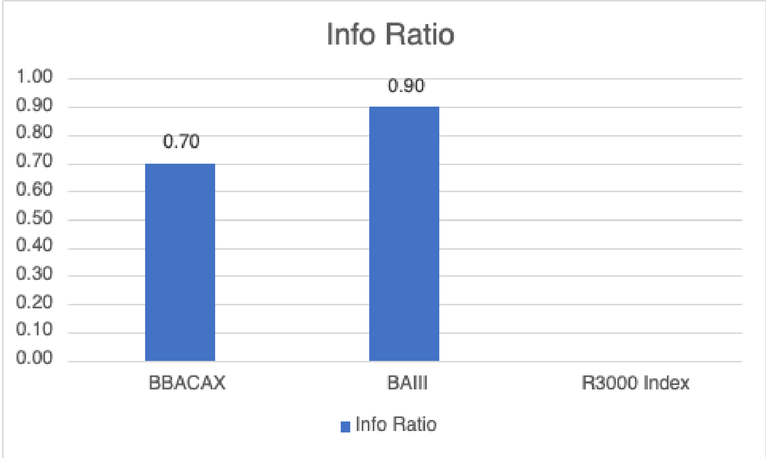
*In 2003, the San Francisco Chronicle and Bloomberg created the Bloomberg Bay Area Index (BBACAX) of companies headquartered in the Bay Area. As of June 2011, it included 383 companies, weighted by market capitalization. The largest five members at the time were Apple, Chevron, Oracle, Google, and Wells Fargo and these five companies made up 50% of the index. As of February 2021, the now-renamed Bloomberg Radio Bay Area Index (BBACAX) is an equal-weighted index of companies headquartered in the Bay Area. It currently includes 146 companies. In the past 5 years, the index has had a net return of 358.98%.

The BAIII investment universe was created in October 2011 and originally included 379 investable securities. The universe reflects changes over time due to corporate actions, security de-listings or bankruptcies, but does not reflect changes in the location of headquarters, IPOs, or other underlying changes made to the BBACAX index methodology. As of 12/31/20, the investment universe included 219 names and the model portfolio included 162 names. Similarly, the headquarter geography data is based on the original designations so the portfolio still reflects that target percentage, but does not reflect changes to headquarter geography over time.



Higher return than market, not as high as the BBACAX*

	Lower volatility than both over 10 years
	**Beta** is a measure of a portfolio or stock's volatility in relation to the overall market. If it moves less than the market, its **beta** is less than 1.0.
	BAIII model has more attractive risk-adjusted return relative to the benchmark and the universe

	97% of the model's movement can be explained by the Russell 3000 index
	The **information ratio** (IR) is a measurement of portfolio returns beyond the returns of a benchmark, usually an index, compared to the volatility of those returns: BAIII has extra return per unit of risk

Past performance does not guarantee future results. The model is rebalanced quarterly. In-between rebalances, the holdings are "rolled forward" by updating security prices and adjusting for corporate actions. In this way, the portfolio's return is calculated monthly. The monthly returns are geometrically linked to calculate performance for longer time periods.

ESG and HIP scores

The BAIII equity model portfolio was evaluated by HIP Investor and their HIP Ratings scoring methodology. HIP (Human Impact + Profit) Ratings are based on a 0-100 scale of impact. Ratings are calculated from quantitative performance measures that demonstrate positive environmental, social, and economic outcomes, as well as future risk and future potential (HIPInvestor.com). HIP Ratings are scored based on the five HIP pillars: Health, Wealth, Earth, Equality, and Trust. Companies with HIP scores less than 25 are generally from the highly polluting extractive industries, while companies with HIP scores of 50-75 are showing strong scores in HIP categories and have proved to be more sustainable for people, planet, and profit (see HIPInvestor.com and ESGX.com Green Jobs Report).

Using current data, we can calculate the HIP Score for Products & Services (P&S), the Total Weight of Holdings >= 50% P&S Rating, and the HIP Fossil Fuel Holdings Weight (Corporates Only) of the current portfolio versus the benchmark (see table below). In Products and Services, the 2020 BAIII portfolio scores higher than the S&P 500 as the mix of products and services of the underlying firms in the model portfolio has a higher HIP rating. In the Total Weight of Holdings, 93.8% of companies in the 2020 BAIII portfolio score above a 50% HIP rating for Products and Services. The companies in the model portfolio are more positive and less extractive for the products, services, and industries they represent. In Fossil Fuel Holdings Weight, the 2020 BAIII portfolio has a lower fossil fuel weighting than the S&P 500. The 2010 BAIII portfolio had a higher fossil fuel weighting due to the inclusion of Chevron and other local gas companies, and fewer renewable energy holdings.

BAIII Portfolios

PORTFOLIO DESCRIPTIONS

Name	Ticker	# of holdings	Products & Services	Total Weight of Holdings >= 50% P&S Rating	HIP Fossil Fuel Holdings Weight (Corporates Only)
BAIII 2010 Portfolio	BAIII 2010	136	60.8%	83.1%	14.80%
BAIII 2020 Portfolio	BAIII 2020	162	67.8%	93.8%	2.63%
S&P 500	SPY 2020	505	63.2%	90.0%	6.6%

Ratings via HIP Investor Ratings.

HIP Investor Impact Ratings 2006-2021. All Right Reserved. Do not share without permission.

Potential Impact from Place-Based Public Equity portfolios

Intentionally seeking to impact the behavior of companies in our public equity portfolios and regions requires some intentional level of engagement with the company. This can include voting proxies for qualities and characteristics shown to be more sustainable and result in being better investments: diversified Boards of Directors, effective human, employee, and environmental standards and practices, transparent operations, etc. In a Place-Based Impact Investing portfolio such as the BAIII equity strategy, we over-weighted the exposure to Bay Area companies (owning Chevron but not Exxon for example in our 'enhanced' index). Significantly overweighting regionally based companies would give BAIII investors a stronger voice in inviting the company and its employees to the conversation about achieving a collaborative regional economic system to address sea-level rise, employment, and infrastructure needs, like housing, transit, and energy sources. Engagement could also lead to partnerships with local companies about apprenticeships and vocational training for the jobs that are here in our region, tackling the issues we face. Many companies in the Bay Area have been enormously successful and have established large foundations. All of these companies can direct not only grants from those local foundations to local solutions and collaborations, but also invest a portion of the corpus of the foundation into the other assets in the Bay Area that will make up the complex capital stack we need to build our sustainable and resilient Bay Area of the future. A diversified Place-Based Impact Investing family of funds would include Bay Area companies' stocks and bonds, local municipal infrastructure, housing, and school bonds, local real estate investments in transit-oriented affordable/mixed-use housing and communities, and new company and social enterprise start-up capital and training. Considering the massive pools and assets located in the Bay Area, including public retirement funds and community foundations, a small portion of the huge globally diversified portfolios around the Bay could be dedicated to local investing to achieve local impact in the Bay Area, channeling hundreds of millions of new dollars to be used in our own backyard.

www.baiii.org
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